

Bank of England warns of recession and says inflation will hit 10%

Inflation will top 10% by the end of the year, the highest rate since 1982, the [Bank of England](#) warned today.

It also said the UK risks sliding recession due to higher [energy prices](#), as it presented one of the most negative outlooks many in the [City](#) can remember.

The Bank offered the glum assessment [as it put up interest rates for the fourth time in a row](#).

Inflation is forecast to peak at 10%, up from a prior estimate of 8%, due to soaring energy and commodity prices that will deliver a historic hit to family incomes and company profits.

“Household disposable income is projected to fall in 2022 by the second largest amount since records began in 1964,” the Bank said in its May Monetary Policy Report.

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Policymakers warned company profits would be squeezed and

unemployment was likely to climb to 5.5% in the coming years. At best, economic growth will flat line in the years ahead. The Bank expects the economy to shrink by 0.25% next year.

Kallum Pickering at Berenberg said: "If we are unlucky, the UK is already in the early stage of a recession."

The Bank of England said there was little it could do to prevent the growth crunch and its job was to focus on inflation.

Rates today went from 0.75% to 1%, a 13-year high.

Three of the nine strong Monetary Policy Committee – Jonathan Haskell, Michael Saunders and Catherine Mann – voted to raise rates even faster to 1.25%.

Yael Selfin, Chief Economist at KPMG UK, said: "Weakening economic growth makes it harder for the Bank to orchestrate a smooth return of inflation to target, with the risk that a steep rise in rates triggers an unnecessary recession just as price pressures ease.

"A tight labour market will be a key concern for the MPC this year, as it could translate into further pressures on pay."

In March, UK inflation hit a 30-year high of 7% as food and energy prices jump.

Many in the City think the Bank was too slow to act on rates, not beginning to move them up from crisis-level lows of 0.1% until December.

The Bank is supposed to hit an inflation target of 2%, but was initially sanguine about exceeding that, insisting inflation would pass by the summer. That now seems unlikely.